

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

Subtitle A—Income Taxes

* * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * *

Subchapter A—Determination of Tax Liability

* * * * *

PART I—TAX ON INDIVIDUALS

* * * * *

SEC. 1. TAX IMPOSED.

(a) * * *

* * * * *

(f) ADJUSTMENTS IN TAX TABLES SO THAT INFLATION WILL NOT RESULT IN TAX INCREASES.—

(1) * * *

* * * * *

(6) ROUNDING.—

(A) IN GENERAL.—If any increase determined under paragraph (2)(A), section 63(c)(4), section 68(b)(2) or section **151(d)(4)** *151(e)(4)* is not a multiple of \$50, such increase shall be rounded to the next lowest multiple of \$50.

(B) TABLE FOR MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a married individual filing a separate return, subparagraph (A) (other than with respect to sections 63(c)(4) and **151(d)(4)(A)** *151(e)(4)(A)*) shall be applied by substituting “\$25” for “\$50” each place it appears.

* * * * *

PART IV—CREDITS AGAINST TAX

* * * * *

Subpart D—Business Related Credits

* * * * *

SEC. 45C. CLINICAL TESTING EXPENSES FOR CERTAIN DRUGS FOR RARE DISEASES OR CONDITIONS.

(a) * * *

(b) **QUALIFIED CLINICAL TESTING EXPENSES.**—For purposes of this section—

(1) * * *

(2) **CLINICAL TESTING.**—

(A) * * *

* * * * *

(C) *TREATMENT OF CERTAIN EXPENSES INCURRED BEFORE DESIGNATION.*—For purposes of subparagraph (A)(ii)(I), if a drug is designated under section 526 of the Federal Food, Drug, and Cosmetic Act not later than the due date (including extensions) for filing the return of tax under this subtitle for the taxable year in which the application for such designation of such drug was filed, such drug shall be treated as having been designated on the date that such application was filed.

* * * * *

Subchapter B—Computation of Taxable Income

* * * * *

PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

* * * * *

SEC. 62. ADJUSTED GROSS INCOME DEFINED.

(a) **GENERAL RULE.**—For purposes of this subtitle, the term “adjusted gross income” means, in the case of an individual, gross income minus the following deductions:

(1) * * *

* * * * *

(19) *PREMIUMS ON QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.*—The deduction allowed by section 223.

* * * * *

PART II—ITEMS SPECIFICALLY INCLUDED IN GROSS INCOME

* * * * *

SEC. 86. SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.

(a) * * *

(b) **TAXPAYERS TO WHOM SUBSECTION (a) Applies.**—

(1) * * *

(2) **MODIFIED ADJUSTED GROSS INCOME.**—For purposes of this subsection, the term “modified adjusted gross income” means adjusted gross income—

(A) determined without regard to this section and sections 135, 137, 221, 222, 223, 911, 931, and 933, and

* * * * *

PART III—ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME

* * * * *

SEC. 135. INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY HIGHER EDUCATION TUITION AND FEES.

(a) * * *

* * * * *

(c) DEFINITIONS.—For purposes of this section—

(1) * * *

* * * * *

(4) MODIFIED ADJUSTED GROSS INCOME.—The term “modified adjusted gross income” means the adjusted gross income of the taxpayer for the taxable year determined—

(A) without regard to this section and sections 137, 221, 222, 223, 911, 931, and 933, and

* * * * *

SEC. 137. ADOPTION ASSISTANCE PROGRAMS.

(a) * * *

(b) LIMITATIONS.—

(1) * * *

* * * * *

(3) DETERMINATION OF ADJUSTED GROSS INCOME.—For purposes of paragraph (2), adjusted gross income shall be determined—

(A) without regard to this section and sections 221, 222, 223, 911, 931, and 933, and

* * * * *

PART V—DEDUCTIONS FOR PERSONAL EXEMPTIONS

* * * * *

SEC. 151. ALLOWANCE OF DEDUCTIONS FOR PERSONAL EXEMPTIONS.

(a) * * *

* * * * *

(d) *ADDITIONAL EXEMPTION FOR DEPENDENTS WITH LONG-TERM CARE NEEDS IN TAXPAYER’S HOME.*—

(1) *IN GENERAL.*—Except as provided in paragraph (2), an exemption of the exemption amount for each qualified family member of the taxpayer.

(2) *PHASE-IN.*—In the case of taxable years beginning in calendar years before 2012, the amount of the exemption provided under paragraph (1) shall not exceed the applicable limitation amount determined in accordance with the following table:

<i>For taxable years beginning in calendar year—</i>	<i>The applicable limitation amount is—</i>
2003 and 2004	\$500
2005 and 2006	1,000
2007 and 2008	1,500
2009 and 2010	2,000
2011	2,500.

(3) **QUALIFIED FAMILY MEMBER.**—For purposes of this subsection, the term “qualified family member” means, with respect to any taxable year, any individual—

(A) who is—

(i) the spouse of the taxpayer, or

(ii) a dependent of the taxpayer with respect to whom the taxpayer is entitled to an exemption under subsection (c),

(B) who is an individual with long-term care needs during any portion of the taxable year, and

(C) other than an individual described in section 152(a)(9), who, for more than half of such year, has as such individual’s principal place of abode the home of the taxpayer and is a member of the taxpayer’s household.

(4) **INDIVIDUALS WITH LONG-TERM CARE NEEDS.**—For purposes of this subsection, the term “individual with long-term care needs” means, with respect to any taxable year, an individual who has been certified, during the 39½-month period ending on the due date (without extensions) for filing the return of tax for the taxable year (or such other period as the Secretary prescribes), by a physician (as defined in section 1861(r)(1) of the Social Security Act) as being, for a period which is at least 180 consecutive days—

(A) an individual who is unable to perform (without substantial assistance from another individual) at least 2 activities of daily living (as defined in section 7702B(c)(2)(B)) due to a loss of functional capacity, or

(B) an individual who requires substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment and is unable to perform, without reminding or cuing assistance, at least 1 activity of daily living (as so defined) or to the extent provided in regulations prescribed by the Secretary (in consultation with the Secretary of Health and Human Services), is unable to engage in age appropriate activities.

(5) **IDENTIFICATION REQUIREMENT.**—No exemption shall be allowed under this subsection to a taxpayer with respect to any qualified family member unless the taxpayer includes, on the return of tax for the taxable year, the name and taxpayer identification of the physician certifying such member. In the case of a failure to provide the information required under the preceding sentence, the preceding sentence shall not apply if it is shown that the taxpayer exercised due diligence in attempting to provide the information so required.

(6) **SPECIAL RULES.**—Rules similar to the rules of paragraphs (2), (3), and (4) of section 21(e) shall apply for purposes of this subsection.

[(d)] (e) **EXCEPTION AMOUNT.**—For purposes of this section—

(1) * * *

* * * * *

[(e)] (f) IDENTIFYING INFORMATION REQUIRED.—No exemption shall be allowed under this section with respect to any individual unless the TIN of such individual is included on the return claiming the exemption.

* * * * *

PART VII—ADDITIONAL ITEMIZED DEDUCTIONS FOR INDIVIDUALS

Sec. 211. Allowance of deductions.

* * * * *

[Sec. 223. Cross reference.]

Sec. 223. Premiums on qualified long-term care insurance contracts.

Sec. 224. Cross reference.

* * * * *

SEC. 219. RETIREMENT SAVINGS.

(a) * * *

* * * * *

(g) **LIMITATION ON DEDUCTION FOR ACTIVE PARTICIPANTS IN CERTAIN PENSION PLANS.**—

(1) * * *

* * * * *

(3) **ADJUSTED GROSS INCOME; APPLICABLE DOLLAR AMOUNT.**—For purposes of this subsection—

(A) **ADJUSTED GROSS INCOME.**—Adjusted gross income of any taxpayer shall be determined—

(i) * * *

(ii) without regard to sections 135, 137, 221, 222, 223, and 911 or the deduction allowable under this section.

* * * * *

SEC. 220. ARCHER MSAS.

(a) * * *

* * * * *

(c) **DEFINITIONS.**—For purposes of this section—

(1) * * *

(2) **HIGH DEDUCTIBLE HEALTH PLAN.**—

(A) * * *

(B) **SPECIAL RULES.**—

(i) * * *

* * * * *

(iii) **MEDICARE+CHOICE MSA'S.**—*In the case of an individual who is covered under an MSA plan (as defined in section 1859(b)(3) of the Social Security Act) which such individual elected under section 1851(a)(2)(B) of such Act—*

(I) such plan shall be treated as a high deductible health plan for purposes of this section,

(II) subsection (b)(2)(A) shall be applied by substituting “100 percent” for “65 percent” with respect to such individual,

(III) with respect to such individual, the limitation under subsection (d)(1)(A)(ii) shall be 100 percent of the highest annual deductible limitation under section 1859(b)(3)(B) of the Social Security Act,

(IV) paragraphs (4), (5), and (7) of subsection (b) and paragraph (1)(A)(iii) of this subsection shall not apply with respect to such individual, and

(V) the limitation which would (but for this subclause) apply under subsection (b)(1) with respect to such individual for any taxable year shall be reduced (but not below zero) by the amount which would (but for subsection 106(b)) be includible in such individual’s gross income for the taxable year.

* * * * *

SEC. 221. INTEREST ON EDUCATION LOANS.

(a) * * *

(b) MAXIMUM DEDUCTION.—

(1) * * *

(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

(A) * * *

* * * * *

(C) MODIFIED ADJUSTED GROSS INCOME.—The term “modified adjusted gross income” means adjusted gross income determined—

(i) without regard to this section and sections 222, 223, 911, 931, and 933, and

* * * * *

SEC. 222. QUALIFIED TUITION AND RELATED EXPENSES.

(a) * * *

(b) DOLLAR LIMITATIONS.—

(1) * * *

(2) APPLICABLE DOLLAR LIMIT.—

(A) * * *

* * * * *

(C) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income shall be determined—

(i) without regard to this section and sections 223, 911, 931, and 933, and

* * * * *

SEC. 223. PREMIUMS ON QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.

(a) *IN GENERAL.*—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percent-

age of eligible long-term care premiums (as defined in section 213(d)(10)) paid during the taxable year by the taxpayer for coverage for the taxpayer and the spouse and dependents of the taxpayer.

(b) **APPLICABLE PERCENTAGE.**—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in calendar year—	The applicable percentage is—
2003, 2004, and 2005	25
2006 and 2007	30
2008 and 2009	35
2010 and 2011	40
2012 and thereafter	50.

(c) **LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.**—

(1) **IN GENERAL.**—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$20,000 (twice the preceding dollar amount, as adjusted under paragraph (2), in the case of a joint return) the amount which would (but for this subsection) be allowed as a deduction under subsection (a) shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be so allowed as such excess bears to \$20,000 (\$40,000 in the case of a joint return).

(2) **ADJUSTMENTS FOR INFLATION.**—

(A) **IN GENERAL.**—In the case of a taxable year beginning after December 31, 2003, the first \$20,000 amount contained in paragraph (1) shall be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year 2002” for “calendar year 1992” in subparagraph (B) thereof.

(B) **ROUNDING.**—If any amount as adjusted under subparagraph (A) is not a multiple of \$1,000, such amount shall be rounded to the nearest multiple of \$1,000 (or if such amount is a multiple of \$500, such amount shall be rounded to the next highest multiple of \$500).

(3) **MODIFIED ADJUSTED GROSS INCOME.**—For purposes of paragraph (1), the term “modified adjusted gross income” means adjusted gross income determined—

(A) without regard to this section and sections 911, 931, and 933, and

(B) after application of sections 86, 135, 137, 219, 221, 222, and 469.

(d) **LIMITATION BASED ON SUBSIDIZED COVERAGE.**—

(1) **IN GENERAL.**—Subsection (a) shall not apply to premiums paid for coverage of any individual for any calendar month if—

(A) for such month such individual is covered by any insurance which is advertised, marketed, or offered as long-term care insurance under any health plan maintained by

any employer of the taxpayer or of the taxpayer's spouse,
and

(B) 50 percent or more of the cost of any such coverage (determined under section 4980B) for such month is paid or incurred by the employer.

(2) *PLANS MAINTAINED BY CERTAIN EMPLOYERS.*—A health plan which is not otherwise described in paragraph (1)(A) shall be treated as described in such paragraph if such plan would be so described if all health plans of persons treated as a single employer under subsection (b), (c), (m), or (o) of section 414 were treated as one health plan.

(e) *COORDINATION WITH OTHER DEDUCTIONS.*—Any amount taken into account under subsection (a) shall not be taken into account in computing the amount allowable as a deduction under section 162(l) or 213(a).

(f) *MARRIED COUPLES MUST FILE JOINT RETURN.*—

(1) *IN GENERAL.*—If the taxpayer is married at the close of the taxable year, the deduction shall be allowed under subsection (a) only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

(2) *MARITAL STATUS.*—For purposes of paragraph (1), marital status shall be determined in accordance with section 7703.

(g) *REGULATIONS.*—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations requiring employers to report to their employees and the Secretary such information as the Secretary determines to be appropriate.

SEC. [223.] 224. CROSS REFERENCE.

For deductions in respect of a decedent, see section 691.

* * * * *

Subchapter E—Accounting periods and Methods of Accounting

* * * * *

PART II—METHODS OF ACCOUNTING

* * * * *

Subpart C—Taxable Year for Which Deductions Taken

* * * * *

SEC. 469. PASSIVE ACTIVITY LOSSES AND CREDITS LIMITED.

(a) * * *

* * * * *

(i) **\$25,000 OFFSET FOR RENTAL REAL ESTATE ACTIVITIES.**—

(1) * * *

* * * * *

(3) **PHASE-OUT OF EXEMPTION.**—

(A) * * *

* * * * *

(F) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income shall be determined without regard to—

(i) * * *

* * * * *

(iii) the amounts allowable as a deduction under sections 219, 221, ~~and 222~~ 222, *and* 223, and

* * * * *

Subtitle C—Employment Taxes

* * * * *

CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

Subchapter A—Withholding from Wages

* * * * *

SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) * * *

* * * * *

(f) WITHHOLDING EXEMPTIONS.—

(1) IN GENERAL.—An employee receiving wages shall on any day be entitled to the following withholding exemptions:

(A) an exemption for himself unless he is an individual described in section ~~151(d)(2)~~ 151(e)(2);

* * * * *

(r) EXTENSION OF WITHHOLDING TO CERTAIN TAXABLE PAYMENTS OF INDIAN CASINO PROFITS.—

(1) * * *

(2) EXCEPTION.—The tax imposed by paragraph (1) shall not apply to any payment to the extent that the payment, when annualized, does not exceed an amount equal to the sum of—

(A) the basic standard deduction (as defined in section 63(c)) for an individual to whom section 63(c)(2)(C) applies, and

(B) the exemption amount (as defined in section ~~151(d)~~ 151(e)).

* * * * *

Subtitle D—Miscellaneous Excise Taxes

* * * * *

CHAPTER 32—MANUFACTURERS EXCISE TAXES

* * * * *

Subchapter C—Certain Vaccines

* * * * *

SEC. 4132. DEFINITIONS AND SPECIAL RULES.

(a) DEFINITIONS RELATING TO TAXABLE VACCINES.—For purposes of this subchapter—

(1) TAXABLE VACCINE.—The term “taxable vaccine” means any of the following vaccines which are manufactured or produced in the United States or entered into the United States for consumption, use, or warehousing:

(A) * * *

* * * * *

(I) Any vaccine against hepatitis A.

[(I)] *(J) Any vaccine against hepatitis B.*

[(J)] *(K) Any vaccine against chicken pox.*

[(K)] *(L) Any vaccine against rotavirus gastroenteritis.*

[(L)] *(M) Any conjugate vaccine against streptococcus pneumoniae.*

* * * * *

Subtitle F—Procedure and Administration

* * * * *

CHAPTER 61—INFORMATION AND RETURNS

* * * * *

Subchapter A—Returns and Records

* * * * *

PART II—TAX RETURNS OR STATEMENTS

* * * * *

Subpart B—Income Tax Returns

* * * * *

SEC. 6012. PERSONS REQUIRED TO MAKE RETURNS OF INCOME.

(a) GENERAL RULE.—Returns with respect to income taxes under subtitle A shall be made by the following:

(1)(A) * * *

* * * * *

(D) For purposes of this subsection—

(i) * * *

(ii) The term “exemption amount” has the meaning given such term by section **[151(d)] 151(e)**. In the case of an individual described in section **[151(d)(2)] 151(e)(2)**, the exemption amount shall be zero.

* * * * *

SEC. 6013. JOINT RETURNS OF INCOME TAX BY HUSBAND AND WIFE.

(a) * * *

(b) **JOINT RETURN AFTER FILING SEPARATE RETURN.—**

(1) * * *

* * * * *

(3) **WHEN RETURN DEEMED FILED.—**

(A) **ASSESSMENT AND COLLECTION.—**For purposes of section 6501 (relating to periods of limitations on assessment and collection), and for purposes of section 6651 (relating to delinquent returns), a joint return made under this subsection shall be deemed to have been filed—

(i) * * *

* * * * *

For purposes of this subparagraph, the term “exemption amount” has the meaning given to such term by section **[151(d)] 151(e)**. For purposes of clauses (ii) and (iii), if the spouse whose gross income is being compared to the exemption amount is 65 or over, such clauses shall be applied by substituting “the sum of the exemption amount and the additional standard deduction under section 63(c)(2) by reason of section 63(f)(1)(A)” for “the exemption amount”.

* * * * *

Subtitle J—Coal Industry Health Benefits

* * * * *

CHAPTER 99—COAL INDUSTRY HEALTH BENEFITS

* * * * *

Subchapter B—Combined Benefit Fund

* * * * *

PART II—FINANCING

* * * * *

SEC. 9704. LIABILITY OF ASSIGNED OPERATORS.

(a) * * *

(b) **HEALTH BENEFIT PREMIUM.—**For purposes of this chapter—

(1) * * *

* * * * *

(4) ADJUSTMENTS FOR MEDICARE PRESCRIPTION DRUG SUBSIDIES.—The trustees of the Combined Fund shall decrease the per beneficiary premium for each plan year in which a subsidy payment is provided to it under section 1860H of the Social Security Act by the amount which would place the Combined Fund in the same financial position as if such subsidy payment had not been received.

* * * * *